

**THE METROPOLITAN GOVERNMENT OF NASHVILLE
AND DAVIDSON COUNTY, TENNESSEE**

Letter of Recommendations to Management

June 30, 2014



October 31, 2014

To the Honorable Mayor and Members of Council
The Metropolitan Government of Nashville and Davidson County, Tennessee
Nashville, Tennessee

Ladies and Gentlemen:

We have audited the basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The Metropolitan Government of Nashville and Davidson County, Tennessee (the "Government") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements. We have also audited the financial statements of the Sports Authority Fund and the Industrial Development Board Fund, which are discretely presented component units of the Government, and the financial statements of each of the Government's nonmajor governmental, nonmajor enterprise, internal service and fiduciary funds, and have issued our report thereon dated October 31, 2014. We have also audited and reported on separately the financial statements of the following discretely presented component units: Metropolitan Nashville General Hospital and Bordeaux Long-Term Care (funds of the Hospital Authority), the Metropolitan Transit Authority, and the Metropolitan Nashville Airport Authority. We did not audit the financial statements of the following discretely presented component units: the Nashville District Management Corporation, the Gulch Business Improvement District, Inc., the Metropolitan Development and Housing Agency, the Electric Power Board, the Emergency Communications District, and the Convention Center Authority. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

In planning and performing our audit of the aforementioned financial statements, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Government's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control.



A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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During our audit, we noted the following matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated October 31, 2014, on the aforementioned financial statements. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

CENTRAL GOVERNMENT

Timely Preparation of Bank Reconciliations

Observation

In testing the Government's internal controls over bank reconciliations, we identified certain bank accounts that were not reconciled on a timely basis. Specifically, the Concentration and Operating, Trustee's imprest and Water and Sewer customer refunds checking accounts were not reconciled timely for several months of the fiscal year. The Government does have certain compensating controls in place to timely detect significant misstatements in the financial statements. However, the risk of not identifying cash errors and possible fraud related to cash increases greatly when bank accounts are not reconciled timely during the year.

Recommendation

All bank accounts should be reconciled timely on a monthly basis by the Government and all reconciling items should be promptly investigated, adjusted and documented with adequate explanations. This will reduce the likelihood of cash errors and fraud, provide for more timely and accurate financial information, and assist in the effective management of cash flow.



Management's Response

General Government

Management agrees with this recommendation. Almost all routine accounting tasks fall behind at the beginning of the new fiscal year as a result of year end reporting for the prior fiscal year and certain set up that is required at the beginning of each new fiscal year. Additionally, the annual unclaimed property process required by the State is performed by staff assigned to bank reconciliations, since most unclaimed property is related to uncashed checks. All bank reconciliations were completed within established timeframes for the last quarter of the 2014 fiscal year.

Trustee's Imprest Account

In the past year, this responsibility has been given to a designated employee who has brought all reconciliations up-to-date and they are now being prepared in a timely manner. As soon as the previous reconciliation is approved by Finance, this employee begins working on the next month. This has resulted in most reconciliations being completed within one to two months. Every effort will be made to keep completing reconciliations as quickly as possible.

Metro Water Services

Metro Water Services goal is to have the Customer Refund Account reconciled according to the guidelines of Metro Finance Department. These guidelines are to have the Customer Refund Account reconciled no later than two to three months after the close of the current month. MWS has hired a Finance Officer II for the CSC Cash Section and he is currently being trained on the reconciliation of the refund account. This function is one of his main responsibilities and after training there should be no foreseen reason for the refund account not to be reconciled according to the guidelines of Metro Finance.

Old Outstanding Items on Bank Reconciliations

Observation

Reconciliations for the Trustee's imprest checking account and the Water and Sewer Customer Refunds Account include many reconciling items that have been outstanding in excess of one year.

Recommendation

Though none of the items identified are significant, either individually or in the aggregate for the respective bank accounts, the Government should periodically evaluate the propriety of reconciling items over one year old. The Government's evaluation of reconciling items should occur on at least an annual basis and include adequate explanations for any resulting adjustments.



Management's Response

Trustee's Imprest Account

As with the bank reconciliations, this responsibility has been given to a designated employee who has already cleared up many old outstanding items. We expect to make even more progress in the next few months, after which we will continue with an annual review. Each time an outstanding item is processed, thorough notes are made and back-up documentation is retained for record-keeping purposes.

Metro Water Services

Metro Water Services has begun to reconcile the outstanding items that are over a year old. This has been incorporated into the monthly reconciliation of the Customer Refund Account to evaluate the outstanding items.

Credit Card Policies

Observation

During testing, it was noted that 12 of 20 P-Card holders tested at Metropolitan Nashville Public Schools (MNPS) did not have credit card responsibility forms on file.

Recommendation

We recommend that credit card responsibility forms for all P-Card holders be retained and on file to document that each employee has received training on how to properly use the card and acknowledge that they are subject to and will abide by the credit card policy.

Management's Response

In August 2014, all MNPS p-cards were deactivated and replaced with new cards. All new cards issued required the responsibility form to be signed. The completed forms are available for review and audit.

Infrastructure Reported Using the Modified Approach

Observation

The Government has adopted the alternative to recording depreciation expense on selected infrastructure assets. Under this method, referred to as the modified approach, the Government expenses certain maintenance and preservation costs and does not report depreciation expense. Roads and bridges are accounted for using the modified approach. The Government's Condition Rating of Transportation Network showed that the percentage of lane miles in fair or better condition for fiscal 2014 was lower than the required percentage under the Government's established policy.



Recommendation

In order to continue using the modified approach for selected infrastructure assets, we recommend that the Government maintain its roads and streets in accordance with its established policy of at least 70 percent of its road and street system at a fair or better condition.

Management's Response

Management agrees with this recommendation. While there was overall improvement in the road condition during the 2014 fiscal year - following the deterioration experienced after the 2010 flood - road conditions are not yet back up to the standard of 70% in fair or better condition. Road conditions are expected to be back up to the standard over the next two to three years.

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Management's responses to the comments identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the audit committee, management, and others within the Government, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Crosslin & Associates, P.C.

CROSSLIN & ASSOCIATES, P.C.